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MAY 2 1972  
COMPTROLLER GENERAL OF THE UNITED STATES  
WASHINGTON, D.C. 20548

RELEASED

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2 Dear Mr. Chairman:

Your letter dated January 3, 1972, requested that we study the bidding methods used by the General Services Administration (GSA) for awarding utility-service contracts for Federal facilities. The enclosures to your letter were concerned principally with the award to The Detroit Edison Company of an electrical-service contract for the Internal Revenue Service Data Center, Detroit, Michigan.

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At a meeting held on February 25, 1972, with your office and the offices of Senators Philip A. Hart and Lee Metcalf, it was agreed that this report would be concerned with (1) a summary of the circumstances which had led to the issuance of a letter of intent to Detroit Edison, (2) an up-to-date list of all GSA areawide contracts for utilities, and (3) our plans to review GSA's procurement and management of utilities for the Government.

We examined records at GSA headquarters and at its Chicago Regional Office and interviewed officials of GSA, the Public Lighting Commission of the city of Detroit, and Detroit Edison.

In August 1970 GSA entered into a lease for a building to be constructed to house the Data Center. The lease agreement provided that the lessor furnish all utilities necessary for operating, maintaining, and servicing the space leased. Arrangements were made by the lessor with Detroit Edison to furnish electrical service for the building.

In April 1971 the lease agreement was revised to provide that the Government assume responsibility for payment of all metered utilities in exchange for a specified reduction in annual rental. This revision required that GSA obtain the electrical service.

GSA officials told us that generally utility companies were sole suppliers and that few instances existed in which competing utilities furnished service in the same geographical

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area. The commission was not included in the list of utilities in the "National Electric Rate Book" for Michigan published by the Federal Power Commission. GSA officials told us that they were not aware that the commission could offer electrical service to the Government until July 1971 when the commission expressed to GSA its interest in furnishing electrical service for the Data Center.

At the request of a GSA utilities specialist, the commission furnished its rate information for the quarter ended September 30, 1971, that was based on an assumed average demand for electricity for the Data Center. Detroit Edison furnished the GSA utilities specialist with rate information for the 6-month period ended September 30, 1971. Rate information for the same 6-month period subsequently was obtained from the commission for comparison with Detroit Edison's rates.

A GSA official informed us that this 6-month period had been used because it covered the summer which was the peak period for the use of electricity. As shown below the period used for comparing rates can have a direct effect in determining the supplier having the lower rate.

Estimated Cost For Electrical Service

<u>Period ended</u> <u>September 30, 1971</u>	<u>Public</u> <u>Lighting</u> <u>Commission</u>	<u>Detroit</u> <u>Edison</u>	Detroit Edison over or under(-) <u>Public Lighting</u> <u>Commission</u>
3 months	\$ 37,806	\$ 39,087	\$1,281
6 months	78,738	78,746	8
9 months (note a)	119,238	117,811	-1,427

<sup>a</sup>GSA made the 9-month comparison after the letter of intent had been issued to Detroit Edison.

GSA's comparison of the two suppliers' rates for the 6-month period ended September 30, 1971, showed that the difference in cost was negligible. GSA considered two other factors before issuing the letter of intent to Detroit Edison. These factors were that: (1) the commission was not a regulated utility and thus had more freedom to increase rates and (2) GSA had an areawide contract with Detroit Edison. Federal Procurement Regulations (FPR 1-4.407(b)) provide that:

"Unless it is determined that more advantageous competing services are available, each executive agency in the area covered by a GSA areawide contract shall procure utility services thereunder: Provided, however, That when it is in the best interest of the Government, an agency may negotiate special rates or special services under an areawide contract or under a separate contract."

GSA, by a letter of intent dated October 1, 1971, informed Detroit Edison that GSA intended to contract with it for electrical power to fulfill the requirements of the Data Center and that a contract for electrical service would be awarded when the Government occupied the building. Building construction is scheduled to be completed by February 1973. GSA informed the commission on October 1, 1971, that Detroit Edison had been selected to furnish the required electrical service.

GSA areawide contracts with public utilities have been developed to simplify and standardize the procurement of utility services for the Government. The areawide contracts are being used for electrical, gas, steam, and water service; the contracts could be used also for sewer or any other utility service.

The areawide contracts make it possible to avoid time-consuming legal and administrative requirements by providing a master contract. This contract establishes, usually for a 10-year period, the general technical and procedural relationships of the utility supplier with the Government, as well as

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the clauses legally required to be included in all Government utility procurements. Thus, under the areawide contract, the requirement for utility service at a particular location, where a separate contract otherwise would be necessary, can be handled by a relatively simple Government order in the form of an authorization.

As of March 1, 1972, GSA had entered into 53 areawide contracts with utility suppliers located in 36 States and in the District of Columbia. (See agency enclosure.) The Federal Procurement Regulations require that GSA procure utility services under areawide contracts where they exist unless more advantageous competing services are available.

Accordingly, under the circumstances surrounding the consideration of the bids received from the commission and Detroit Edison, it appears that GSA's issuance of the letter of intent to Detroit Edison for electrical services for the Data Center was reasonable.

The commission has submitted an application to GSA for an areawide contract. On March 1, 1972, a GSA official informed us that a proposed GSA contract was being prepared and that it would be sent to the commission for its consideration.

A commission official informed us that the commission did not plan to formally protest GSA's issuance of the letter of intent to Detroit Edison. Commission officials told us that the commission wanted to have an opportunity to bid on future Government needs for electrical service in the Detroit area, particularly with respect to a Federal office building proposed to be constructed in Detroit. Because GSA is now aware of the availability of electrical service from the commission and because steps are being taken to enter into an areawide contract, it appears that the commission will have the opportunity to bid on future electrical needs of the Government in the Detroit area.

We plan to review GSA's procurement and management of utilities for the Government and to examine into GSA's bidding

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policies and procedures and areawide contracting. We plan also to examine into whether GSA is obtaining the most advantageous rates for the utility services being furnished to the Government. We will furnish the Committee with a copy of any report which may be issued as a result of our planned review.

We plan to make no further distribution of this report unless copies are specifically requested, and then we shall make distribution only after your agreement has been obtained or public announcement has been made by you concerning the contents of the report.

Sincerely yours,



Deputy

Comptroller General  
of the United States

Enclosure

The Honorable John L. McClellan, Chairman  
Committee on Government Operations  
United States Senate

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